



DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
1006 BEATTY PLACE SE
WASHINGTON NA W YARD, DC 20374-5005

754712002-0121001
21 Oct 02

MEMORANDUM FOR ASSISTANT AUDITOR GENERAL FOR OPERATIONS,
AIR **FORCE** AUDIT AGENCY

Subject: **PEER REVIEW OF THE AIR FORCE AUDIT AGENCY**
(N2003-0004)

Ref (a) SECNAV Instruction 7510.7E, "Department of the Navy Internal Audit"

Encl: (1) Letter of Comments
(2) Air Force Audit Agency Response to Naval Audit Service Letter of Comments

1. In accordance with the Memorandum of Understanding dated 18 March 2002, we have completed an external peer review of the Air Force Audit Agency. Our opinion report was provided to you on 30 July 2002, and it concluded that the Air Force Audit Agency's system of quality control met the standards established by the President's Council on Integrity and Efficiency.

2. The report also stated we would provide a Letter of Comments, Enclosure (1). The enclosed Letter of Comments contains observations and recommendations **regarding** issues that did not warrant inclusion in the opinion report. You provided your **official** responses to the Letter of Comments on 25 September **2002** and concurred with the **findings** and recommendations and have taken or planned corrective actions. Enclosure (2) is a copy of your verbatim responses. Recommendation 2 is closed and no further action is required. Recommendations **1, 3,** and 4 are open and are subject to monitoring in accordance with reference (a). Therefore, a written status report on actions taken should be sent in electronic format (Word or Adobe Acrobat file) to Frank Nutter, at frank.nutter@navy.mil, with a copy to the Assistant Auditor General for Strategic Sourcing and Resources Management (**SR-24**), at timothy.keller@navy.mil, within 30 days **after** the target completion date.

3. We express our thanks to you and your staff for your cooperation and professionalism during this review. If you have any questions, please call Mr. Nutter at 202-433-4844.

William E. Bragg

WILLIAM E. BRAGG
Assistant Auditor General
Strategic Sourcing and Resources Management

Copy to:
DoDIG (AIG/AFTS)

Letter of Comments

We reviewed the system of quality control for the audit function of the Air Force Audit Agency (AFAA) in effect for audit reports issued **during** the 6-month period ended 31 March 2002, and issued our report thereon (**N2002-0064**) dated 30 July 2002. In our opinion, the **AFAA's** system of quality control met the standards established by the President's Council on Integrity and **Efficiency** (PCIE). This letter of comments contains observations and recommendations regarding continuing professional education (CPE) requirements and quality control issues that did not warrant inclusion in our opinion report because they did not **materially** impact the audit reports reviewed. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting whether **AFAA's internal** quality control system was designed in accordance with the quality standards established by the PCIE and was being complied with for the period reviewed to provide reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. We conducted our review in conformity with standards and guidelines established by the PCIE. **Our** review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

As a result of our review, we identified reportable conditions, which we considered in determining our opinion set forth in our report dated 30 July 2002. A reportable condition for peer review purposes represents a significant deficiency in the design or operation of the reviewed organization's internal control that could adversely affect the organization's ability to comply with applicable auditing standards and established auditing policies and procedures. We identified the following reportable conditions:

Reportable Conditions

Finding 1. Staff Qualifications - CPE Requirements.

AFAA is not in full compliance with the Government Auditing Standards' CPE requirements. The General Accounting **Office** (GAO) has established **Government** Auditing Standards for conducting financial and performance audits. The first General Standard addresses staff qualifications. It states, "The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required." To meet this standard, there are continuing education requirements. Paragraph 3.6 states that every 2 years auditors should complete "at least 80 hours of continuing education and training which contributes to the

auditor's professional proficiency. At least 20 hours should be completed in any 1 year of the 2-year **period.**" At least 24 of the 80 hours should be in subjects "**directly related** to the government environment and to government auditing." Paragraph 3.7 states that the "audit organization is responsible for establishing and implementing a program to ensure that auditors meet the continuing education and training requirement just **stated.** The organization should maintain documentation for the education and training completed."

GAO has issued the *Interpretation of the Continuing Education and Training Requirements* to assist audit organizations and auditors in using sound professional **judgment in applying** the qualifications standard. Typically, training is measured in CPE hours.

- Paragraph **43.a.(2)** specifies that programs and activities that **qualify** for CPE include "Audit organization staff meetings when a structured educational program is presented (**e.g.**, that portion of the meeting where a structured educational program is used to brief staff on an auditing standard and demonstrate its applicability to their work). **Informal** discussions of current events in the **audit/evaluation** profession do not qualify for CPE hours."
- Paragraph 50 specifies programs, subjects, and topics that do not qualify for CPE. These include:
 - On-the-job training.
 - 9 Programs that do not enhance auditors' professional proficiency but are designed for the general public, such as resume writing, personal investments and money management, and retirement planning.
 - Programs on the audit organization's administrative operations.

Training documentation was reviewed for 116 AFAA auditors to determine whether they met CPE requirements during 1999 through 2001. During this review, we only gave credit for training that met the guidelines of the criteria discussed above. AFAA gave CPE credit for sessions that did not qualify as CPE. Examples include pre-retirement training, resume writing, informational **staff/office** and Region Chief meetings, and Civilian Appraisal Program sessions. In reviewing training documentation, CPE credit was disallowed for these types of training that do not meet the **Government Auditing Standards' CPE guidelines.**

Six of the auditors reviewed did not meet the 20- **and/or** 80-hour CPE requirements for 1999-2000, and three auditors did not meet the 20-hour CPE requirement for 2001. These auditors did not meet the CPE hour requirements because of **insufficient** training hours or because CPE hours were given for training that did not qualify as CPE credit.

Additionally, there is currently no organization-wide mechanism to track CPE hours. There was no consistency among the AFAA offices visited in tracking CPE, nor does the **Training Office** have a CPE report capturing CPE hours for all auditors. Furthermore, there was no documentation to show that the 24-hour CPE requirement was considered or reviewed by anyone.

Recommendation 1: AFAA adhere to GAO guidelines when **determining** what training hours qualify as CPE.

AFAA response to Recommendation 1. Concur. AFAA has initiated action to ensure we adhere to GAO guidelines. Specifically, we will issue guidance that defines what training does not meet GAO CPE guidelines. In addition, we modified the CPE tracking system so that training that does not qualify for CPE is excluded **from** the system. **Finally**, we **incorporated** this requirement **into** the Defense Audit **Management** Information System (**DAMIS**) training module. Estimated completion date: 31 December 2002.

Naval Audit Service comment on response to Recommendation 1. The planned management actions **are** responsive to the recommendation.

Recommendation 2: AFAA establish a reporting system that captures CPE data for the 20-, 24-, and 80-hour requirements for all auditors by reporting period.

AFAA response to Recommendation 2. Concur. All AFAA elements were directed to reimplement a CPE **tracking** system previously used. This system will monitor the various CPE hourly requirements until the **DAMIS** training module is operational. We consider this recommendation closed.

Naval Audit Service comment on response to Recommendation 2. Management actions taken are responsive to the recommendation.

Finding 2. Using Outside Consultants.

The **Government** Auditing Standards, paragraphs 3.3 through 3.5, state that the staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required. The assigned staff should also have a thorough **knowledge** of **government** auditing and of the specific or unique environment in which the audited entity operates, relative to the **nature** of the audit being conducted. Therefore, an organization may need to employ **personnel** or hire outside consultants knowledgeable in specific areas. During the peer **review** of AFAA, we found that the AFAA did not have documented policies and procedures for identifying when consulting services **are** needed and for determining whether outside consultants hired to assist on audits will have the skills needed to perform the required **task**. When we discussed this issue, AFAA officials stated that consultant services are rarely **used** by the agency. It was also stated that if consulting services were needed, the AFAA directorate needing the assistance would verify the individual qualifications before issuing a contract. However, in the absence of documented policies and procedures, there is reduced assurance that consistency would be effectively and efficiently applied throughout the AFAA organizations to ensure that consulting services are needed and that the consultants have the knowledge, skills, and abilities to perform the assigned task.

Recommendation 3. AFAA document the policies and procedures to be followed when hiring outside consultants to perform or assist on audit work.

AFAA response to **Recommendation 3.** Concur. AFAA will add a new chapter entitled "Use of Outside Consultants" to Air Force Audit Agency Instruction **65-103**, "Audit Management and Administration," currently in revision. The new chapter will provide general policy for obtaining outside consultants to assist on audits with highly technical issues requiring **experts/specialists**. Estimated completion date: **31 October 2002**.

Naval Audit Service comment on response to Recommendation 3. The planned management actions are responsive to the recommendation.

Finding 3. Cross-Referencing Audit Reports.

AFAA policies and procedures require that facts and figures in audit reports be cross-referenced to supporting work papers. On 7 of the **10** audit reports reviewed, the cross-references were to summary work papers that could not be readily traced to supporting source documents. This condition occurred in four of six automated work papers audits because the **hyperlinks** only identified the summary work paper and were not linked back to the detailed supporting source documents. Not cross-referencing facts and figures to supporting work papers occurred in three of four non-automated working paper audits. We attributed these conditions to lack of attention by audit managers and lack of **knowledge** by the audit staff of generally accepted government auditing standards as implemented by the AFAA audit regulations. Failure to cross-reference facts and figures in **audit reports** to **supporting source documents** could result in questions on the credibility of the reported **data**.

Recommendation 4. AFAA re-emphasize the requirement to cross-reference facts and figures in audit **reports** to supporting source documents, and follow **up during** quality **assurance** reviews to ensure audit reports **are** cross-referenced to supporting source documents.

AFAA response to Recommendation 4. Concur. HQ AFAA/DO will **issue** a memorandum to all AFAA offices reminding them of the requirement to cross-reference summary **working** papers to supporting working papers. In addition, the memorandum will remind project supervisors (program managers and team chiefs) of their responsibility to assure audit reports are adequately supported. Finally, we recently announced a quality assurance review of independent referencing. We will include steps in this review to assess compliance with the AFAA requirement to cross-reference **summary working** papers to supporting source documents. Future quality assurance reviews will include similar steps. Estimated completion date: **31 January 2002**.

Naval Audit Service comment on response to Recommendation 4. The planned management actions are responsive to the recommendation.

Air Force Audit Agency Response to Naval Audit Service Letter of Comments



DEPARTMENT OF THE AIR FORCE
AIR FORCE AUDIT AGENCY

25 September 2002

HQ AF/AO/DO
1125 Air Force Pentagon
Washington DC 20330-1125

Mr. Frank Nutter
Naval Audit Service
1006 Beatty Place SE
Washington Navy Yard, DC 20374-S005

Dear Mr. Nutter:

My staff and I reviewed the draft letter of comments pertaining to the peer review of the Air Force Audit Agency. We concur with your findings and offer the following comments in response to the specific recommendations:

a. Finding II. Staff Qualifications - Continuing Professional Education (CPE) Requirements

Recommendation 1. AF/AO adhere to GAO guidelines when determining what training hours qualify as CPE.

AF/AO Comments. Concur. AF/AO has initiated action to ensure we adhere to GAO guidelines. Specifically, we will issue guidance that defines what training does not meet GAO CPE guidelines. In addition, we modified the CPE tracking system so that training that does not qualify for CPE is excluded from the system. Finally, we incorporated this requirement into the Defense Audit Management Information System (DAMIS) training module. Estimated completion date: 31 December 2002.

Recommendation 2. AF/AO establish a reporting system that captures CPE data for the 20-, 24-, and 80-hour requirements for all auditors by reporting period.

AF/AO Comments. Concur. All AF/AO elements were directed to re-implement a CPE tracking system previously used. This system will monitor the various CPE hourly requirements until the DAMIS training module is operational. Closed.

b. Finding 2. Using Outside Consultants

Recommendation 3. AFAA document the policies and procedures to be followed when hiring outside consultants to perform or assist on audit work.

AFAA Comments. Concur. AFAA will add a new chapter entitled "Use of Outside Consultants" to Air Force Audit Agency Instruction (AFAAI) 65-103, *Audit Management and Administration*, currently in revision. The new chapter will provide general policy for obtaining outside consultants to assist on audits with highly technical issues requiring experts/specialists. Estimated completion date: 31 October 2002.


c. Finding 3. Cross-Referencing Audit Reports

Recommendation 4. AFAA re-emphasize the requirement to cross-reference facts and figures in audit reports to supporting source documents, and follow up during quality assurance reviews to ensure audit reports are cross-referenced to supporting source documents.

AFAA Comments. Concur. HQ AFAA/DO will issue a memorandum to all AFAA offices reminding them of the requirement to cross-reference summary working papers to supporting working papers. In addition, the memorandum will remind project supervisors (program managers and team chief?) of their responsibility to assure audit reports are adequately supported. Finally, we recently announced a quality assurance review of independent referencing. We will include steps in this review to assess compliance with the AFAA requirement to cross-reference summary working papers to supporting source documents. Future quality assurance reviews will include similar steps. Estimated completion date: 31 January 2002.

We wish to express our thanks to you and the other members of the Naval Audit Service staff who performed the review. You conducted the review in a professional and efficient manner. Should you have any questions, please have your staff contact Ms. Donjette L. Gilmore (703-696-8025) or Mr. George Falk (703 696-8001).

Sincerely


KENNETH E. GREGORY
Assistant Auditor General
(Operations)